



Office of Health Plan Administration
P.O. Box 720724
Sacramento, CA 94229-0724
Telecommunications Device for the Deaf, TTY 1 (800) 795-2929; (916) 795-3240
(916) 795-0041; FAX (916) 795-1513
Toll Free: **888 CalPERS** (or **888-225-7377**)

May 14, 2008

AGENDA ITEM 7b

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. SUBJECT:** Approval of 2009 Self-Funded Plans Benefits and Rates
- II. PROGRAM:** Health Benefits
- III. RECOMMENDATION:** Staff recommends that the Health Benefits Committee approve the proposed 2009 rates, for the Self-Funded Health Plans.
- IV. BACKGROUND:**

In May of 2004, the CalPERS Board of Administration adopted a change in reserving methodology for the self-funded health plans. Beginning with the June 2004 financial report, staff calculated the target reserve level for each of the four self-funded health plans as the sum of *incurred but not reported* (IBNR) reserve plus a *risk-based capital* (RBC) contingency reserve at the 300% level. This total reserve is now noted as the Actuarial Reserve. Staff refers to assets above this level as excess or surplus reserves. Staff tracks reserves separately for each of the four (six as of 1/1/08) self-funded health plans.

For the 2005, 2006 and 2008 rate years, the Board applied a “one-third” rule as a rate reduction strategy for the CalPERS self-funded health plan rates. That is, one-third of estimated surplus reserve assets would be applied to reduce rates. This approach provided a continuing financial cushion for the self-funded health plans as well as rate relief to employers and members. This is particularly important to members with CalPERS self-funded health plans as their only option.

For 2007, the reserve projections indicated that surpluses would reduce naturally as a percentage of total cost. Based upon this projection, the actuarial consultant, Mercer Human Resource Consulting (Mercer), recommended that no spend down adjustments be applied for the 2007 rates. Staff agreed with this recommendation.

V. ANALYSIS:

Mercer, as well as the actuarial staff at Blue Cross collaborated with CalPERS staff in the assessment of the proposed 2009 self-funded health plan rates. The joint review examined current utilization and cost trends, and the need to maintain appropriate reserves under the Actuarial Reserve methodology.

CalPERS staff will present the proposed 2009 state self-funded health plan premiums to the Health Benefits Committee at the May 14, 2008 meeting. Staff will present premiums for contracting agencies for approval in June with the HMO premiums.

VI. STRATEGIC PLAN:

This item supports the CalPERS Strategic Plan, Goal III: Design, develop, and administer benefit programs and business processes that are innovative, effective, efficient, and valued by our members, employers, and stakeholders.

VII. RESULTS/COSTS:

Costs associated with this item are continuously appropriated in the Public Employees Health Care Fund.

Gregory A. Franklin, Acting Chief
Office of Health Plan Administration

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch